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**The United States, China, Taiwan and the Elements of National Power:**  
**Recognizing a Strategic Feint to Achieve an Operational Objective**

By

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**A paper submitted to the faculty of the Naval War College in partial satisfaction of the requirements of the Department of Joint Military Operations.**

**The contents of this paper reflect my own personal views and are not necessarily endorsed by the Naval War College or the Department of the Navy.**

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## Abstract

The People's Republic of China (PRC) considers Taiwan to be a renegade province. As such, this paper builds off of two assumptions. First, China's desired end state for Taiwan is complete and total *submission* to the authority of the Chinese government. Because of the complex circumstances which make up the China-Taiwan relationship, a peaceful solution is highly improbable. Over the past decade China has modernized its military to accomplish the national strategic objective of *forcing* Taiwan into submission for the purpose of attaining this desired end state. The second assumption is that the PRC identifies Taiwan's center of gravity to be U.S. support. Based on these two assumptions, this paper suggests that China would likely create a strategic diversion aimed at achieving internal chaos within the United States prior to an invasion on Taiwan in an attempt to prevent U.S. military intervention. By examining the four elements of national power which the PRC has at its disposal, it shall be proposed that information and economics are the two elements China is most likely to employ against the United States to create this diversion.

If China was to attempt a diversion through an attack by other than military means on the United States, the Department of Defense, through U.S. PACIFIC COMMAND, may be one of the few agencies to correctly identify that China's employment of the elements of national power at the strategic level of warfare is in reality a feint to overt U.S. Military intervention at the operational level. Interagency coordination, training, and exercising are necessary in advance in order to counter this type of an attack and maintain a free and independent Taiwan.

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## Introduction

We live in a “globalized” world. The term globalization best describes the world and its existence within the confines of which all nations interact. In turn, D.I.M.E. (diplomatic, information, military, and economic) has become the acronym of choice to define the primary elements of national power within this globalized structure. The nation-states of the world either wield their authority or are subjected to the authority of superior nation-states through these elements. When a capitalist nation exercises free trade, the information and economic pieces of D.I.M.E., in theory, are not constrained by the self-imposed boundaries of governmental regulation. Rather, these two entities are the lifeblood of the nation, allowing corporations and individuals alike to acquire wealth which in turn provides governmental income through taxation. In many ways, opposing this position are a nation’s diplomacy and military. Together, these two elements ensure that a nation’s individual interests are not violated and, when necessary, are elevated above the interests of other nations to achieve political objectives. This, at least, is a western view of how the world works.

Standing diametrically opposed to this point of view, the government of the People’s Republic of China (PRC) operates under the guise that it must control all four elements of national power. By exercising direct control over information and economics, the PRC is capable of shaping U.S. interests beyond the traditional western methods of exercising national power. As such, the United States may very well be unprepared to respond to future threats by China’s usage of these elements in a manner which is not readily apparent.

This paper will propose that the PRC (henceforth interchangeable with *China*) may use information and economics from the four elements of national power to create a pre-invasion diversion in an attempt to delay the United States from assisting Taiwan until such time that a

military response would be initiated beyond the point of operational culmination<sup>1</sup> for U.S. Forces--therefore making a response futile. In order to counter PRC military action prior to the capitulation of Taiwan, this paper will recommend that U.S. PACIFIC COMMMAND (PACOM) respond at the operational level with a show of force, should the signs of such a diversion at the strategic level become evident. Because the elements of national power included in D.I.M.E. are distinctly western, this paper will only use these four elements as subject headings to present how the PRC may attempt to shape the world. Thus, it will avoid simply mirror imaging U.S. interpretation and application of these foundational components used for international influence. Central to the Chinese methods of shaping its adversaries is the concept of *stratagem* or the idea that strategy should be used to out-think your opponent. Through stratagems, indirect attacks may be used to create a diversion in order to achieve one's true purpose. The concept of stratagems and their applications will be more fully examined later.

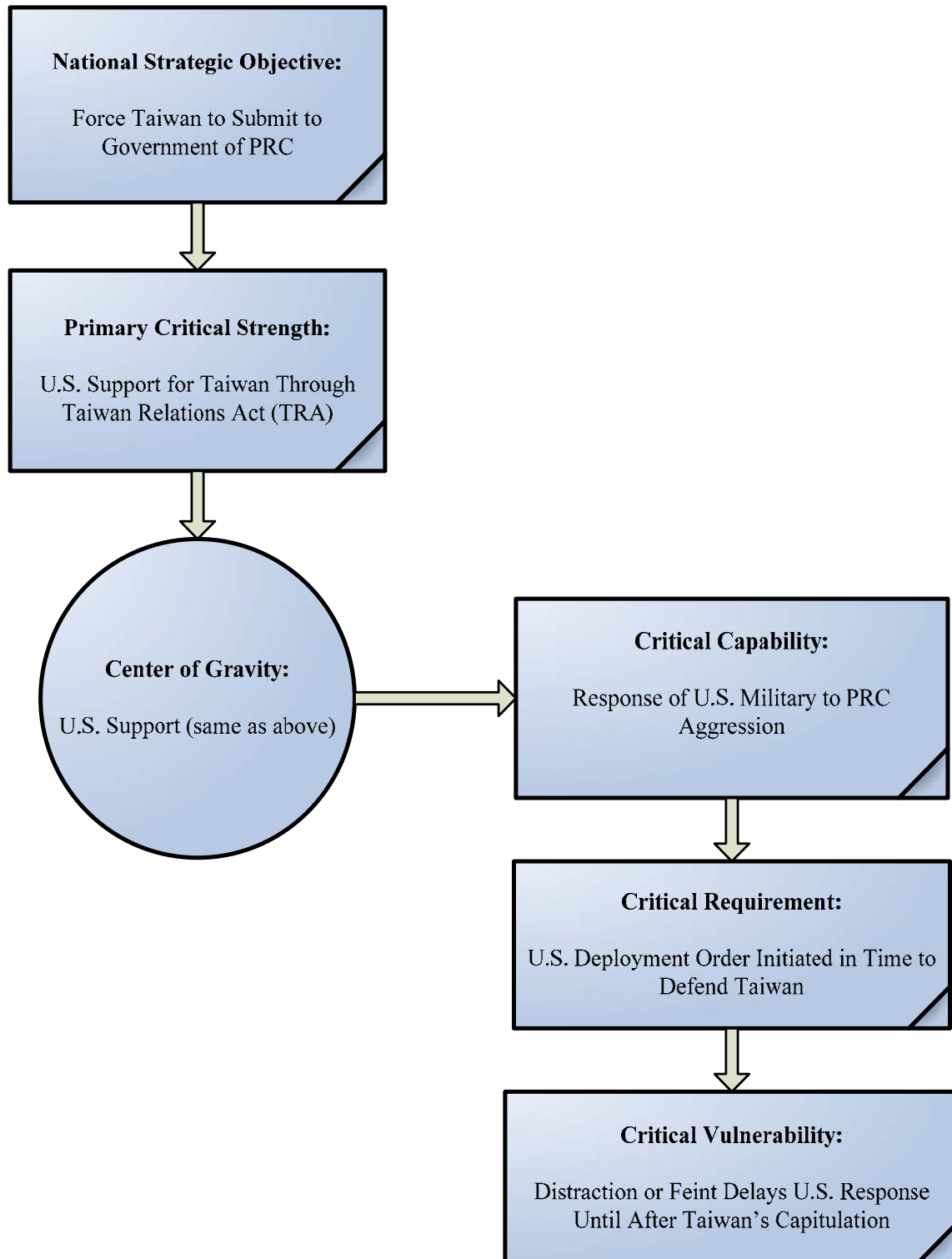
To further develop the idea of a strategic diversion, two assumptions must first be introduced. The first assumption is that China's desired end state<sup>2</sup> for Taiwan is *complete and total submission* to the governmental authority of China. Because of the complex circumstances which have come to define the current China-Taiwan relationship, a peaceful solution is highly unlikely. Based upon the first assumption, and the improbability of a peaceful resolution, China's national strategic objective would likely be to *force* Taiwan's submission. The second assumption is that the PRC views the threat of a U.S. military response to Chinese aggression as Taiwan's center of gravity, based upon the political support Taiwan receives from the United States. "The single most important difficulty faced by Beijing in planning the use of force is that the PRC must prepare a military campaign sufficient to bend the will of Taipei while minimizing the probability of a military response

from the United States designed to preserve the quasi-independent status of Taiwan.”<sup>3</sup> To achieve the desired end state for Taiwan while avoiding a direct military confrontation with the United States, it is likely that China would create a diversion aimed at a U.S. critical vulnerability. (See Figure 1 for a simplified center of gravity flow chart.) To describe how China may attempt to distract the United States, the four elements of national power will be analyzed in the following order: 1) diplomatic, 2) military, 3) information, and 4) economic. Presented from least to most important, the primary focus will be on potential Chinese applications of information and economics to achieve the military and diplomatic objectives necessary to accomplish the desired end state of complete Taiwanese submission to the PRC.

### **Why Taiwan: A brief history**

Taiwan has had a varied and unique relationship with China over the past 500 years. Prior to 1500, China made no official claim to the island due to its distance from Mainland China and Chinese internal and external strife. In 1517, a Portuguese vessel en route to Japan sighted Taiwan while passing through the Strait of Taiwan. Annotated in the captain’s log from that voyage were “the words ‘Ilha Formosa’ or beautiful island”<sup>4</sup> for its green mountains which could be seen from the distance--thus Formosa. During the 17<sup>th</sup> century Taiwan was ruled intermittently by the Portuguese, the Dutch, briefly self governed, and ultimately by the Chinese who established a feudal system of government which was maintained for over two hundred years. In 1894, China ceded Taiwan to Japan following the war over Korea. Japan claimed the island for fifty years leading up to 1945 when it was ceded back to Nationalist China at the end of World War II. In 1949, four years after being returned to China, the Chinese Nationalist government was disposed by Communists and subsequently driven off the Mainland. The dislocated Nationalist government of China

**Figure 1.**  
**Simplified Center of Gravity Flow Chart from PRC Perspective:**  
Assumes China's Desired End State for Taiwan is "Complete and Total Submission"





reestablished itself on Taiwan which resulted in Taiwan officially becoming the Republic of China, the former government of all of China.

For the next twenty years, civil war, famine and a host of other problems internal to China prevented it from establishing many state-to-state diplomatic relationships. This resulted in Taiwan (the Republic of China) becoming the voice of China for international affairs. Then, in 1971, the PRC gained its entrance into the United Nations, along with a permanent seat on the Security Council, and consequently began to undermine the nation-state status of the Republic of China. This became further evident under President Jimmy Carter's "One-China" policy which officially recognized the PRC as the sole governing body of all of China. This would have sealed Taiwan's fate if not for the U.S. Congress immediately stepping in with the Taiwan Relations Act (TRA) which essentially gave Taiwan all of the rights of a sovereign nation, but without legally declaring it an independent state. Most importantly, the TRA states, "It is the policy of the United States to consider any effort to determine the future of Taiwan by other than peaceful means, including by boycotts or embargoes, a threat to the peace and security of the Western Pacific area and of grave concern to the United States."<sup>5</sup> Since its inception, the U.S. interpretation of the "One-China" policy has tended to vary with administration, but usually follows the party-line with Democratic Administrations taking a more liberal stance that usually sides with the PRC and Republican Administrations taking a firmer stance that usually sides with Taiwan. The current Bush Administration has taken a more rigid posture that aligns with the interests of Taiwan. Opposing China's openly aggressive policy toward Taiwan, this administration has offered a number of weapon systems to Taiwan, including the sale of diesel submarines

which is the first time since the TRA was established that a strictly offensive weapons platform has been authorized for sale by any administration.<sup>6</sup>

### **China's Diplomacy Conundrum**

China has matured a great deal in its ability to diplomatically influence its Asian neighbors, but it still does not have the diplomatic leverage necessary to be a global political influence. For example, last spring the United States attempted to restart the stalled “six-party talks”<sup>7</sup>--a diplomatic effort to denuclearize North Korea. China was a key member of the talks because of the economic support which it provides to North Korea. As one of the few nations capable of applying diplomatic and economic pressure on North Korea, China's cooperation was imperative to reinstating the six-party talks. Despite the significant role that China was needing to play, “China backed off, when Chinese foreign ministry spokesman Liu Jianchao said, ‘We are not in favor of exerting pressure or imposing sanctions’ on North Korea. ‘We believe that such measure [*sic*] are not necessarily effective.’”<sup>8</sup> In doing so, China was undermining the U.S. non-proliferation policy and attempting to show the world that it had the diplomatic ability to influence world events. Meanwhile, the White House, unable to negotiate with North Korea without China's influence, sought a method of convincing China to apply pressure on North Korea. To do so, the Bush administration applied diplomatic pressure on China by calling for economic reform.<sup>9</sup>

The Chinese yuan<sup>10</sup> had been fixed to the dollar since the mid 90's. This fixed currency, which was undervalued by as much as 40 percent,<sup>11</sup> allowed China to sell its goods to the United States at reduced prices while charging significantly higher prices for imported U.S. goods. Clearly not in China's best interest to continue its moderate position with North

Korea at the risk of losing favor with its largest economic partner, China agreed to utilize diplomatic and economic pressure on North Korea if Kim Jong-il refused to return to the six-party talks. This U.S. pressure applied to China served to remind the PRC of its place in the six-party talks and, ultimately, influenced China to return to its hard-line stance against North Korea's nuclear efforts. In June, the United States achieved its diplomatic objective when North Korea agreed to return and by late July the talks had begun again.

In terms of the foreseeable future, China will remain diplomatically weaker than the United States. Even though China is reaching out to its neighbors in Asia, it still remains subordinate to the United States on a global scale. As long as the United States retains the upper hand, diplomacy will not serve to accomplish China's desired end state for Taiwan, thereby removing the diplomatic option from China's elements of national power to use against the United States.

### **China's Military Buildup**

China's published defense budget has increased significantly since the mid-1990s. With an annual double-digit growth rate for the past 10 years, the publicly disclosed figure for 2005 defense spending was \$29.9 billion; a 12.6 percent increase over the previous year and double that which was spent in 2000. While this trend is disturbing, the estimated unreported figures are even more so. The Office of the Secretary of Defense, in its 2005 Annual Report to Congress on China, stated that the actual value could be nearly two to three times the reported figure--up to \$90 billion.<sup>12</sup> This higher estimate would place the actual budget for defense spending at nearly 5 percent of China's GDP.<sup>13</sup> By comparison, the defense spending for the United States was roughly 3.9 percent of GDP over the same period.<sup>14</sup>

This increase in spending is further complicated by the type of weapon systems China is investing in and the placement of these systems in the vicinity of the Strait of Taiwan.

“China’s development and deployment of significant numbers of conventionally armed short- and medium-range ballistic and cruise missiles is directly linked to Chinese force planning for a Taiwan conflict.”<sup>15</sup> Furthermore, while a military confrontation with the United States over Taiwan is not desired,

. . . the most immediately relevant driver of the PLA’s [Peoples Liberation Army] current planning and procurement is the goal of the Chinese leadership and the PLA to reassert control over Taiwan and their concerns about possible U.S. intervention if conflict with Taiwan should ensue. Since the end of the 1990s, PLA reform, modernization, procurement, and training has been heavily—almost totally—focused on preparing for a conflict over Taiwan.<sup>16</sup>

While it is argued that China would attempt to divert U.S. intervention by creating a diversion prior to conducting military action against Taiwan, it is clear that the PLA is preparing for a U.S. response, if such a feint were to fail. Through its modernization efforts and ever-increasing defense budget, the PLA is quickly becoming a formidable force in the Asian region. Given China’s deliberate preparations which it continues to make ready for a confrontation, the United States must be militarily prepared to counter this growing threat to Taiwan’s “quasi-independent status.”

### **Information: China’s stratagem for warfare**

In this era of globalization, information acts to create, shape, and mold the beliefs and values of its consumers. While the PRC attempts to control much of the information available to its citizens, the West promotes free and open information sharing which builds trust and leads to a greater knowledge base. An unfortunate byproduct of such an information sharing system is that it is vulnerable to attack. How might China use information to achieve victory over Taiwan by creating a diversion within the United States?

To answer this question, this paper will first define the concept of stratagem from a Chinese perspective; second, draw a comparison between U.S. and Chinese interpretation and application of information warfare; and third, building upon Chinese interpretations of stratagems and information warfare, examine potential U.S. critical vulnerabilities which China might attempt to exploit.

Stratagems, evident in nearly every aspect of Chinese military thought,<sup>17</sup> are defined as “an artifice or trick in war for deceiving and outwitting the enemy; a cleverly contrived trick or scheme for gaining an end; skill in ruses or trickery.”<sup>18</sup> Foundational components to the PRC’s method of warfare, they corroborate with the ancient writings of the Chinese military strategist Sun Tzu. In this book, The Art of War, he stresses such ideals as attacking the enemy’s strategy and morale rather than achieving victory through attrition.<sup>19</sup> According to accepted Chinese military custom there are a total of 36 stratagems.<sup>20</sup> In The Secret Art of War: The 36 Stratagems, an unknown Chinese scholar collected the thirty-six stratagems and wrote them down in a single location. By way of introduction, the first two stratagems are as follows:

Stratagem One is “Fool the emperor to cross the sea.” This means that in order to lower an enemy’s guard you must act in the open while hiding your true intentions under the guise of common, daily activities. . . . Stratagem Two is “Besiege Wei to rescue Zhao.” This means that when the enemy is too strong to attack directly, then attack something he holds dear.<sup>21</sup>

Both of these stratagems will be analyzed later, but have been introduced here to draw attention to how Chinese warfare places extreme importance on the concept of deception. “In essence, a stratagem is about out-thinking the opponent, forcing the enemy to believe something that is not true. The idea is to manipulate an opponent into a decision or into a movement that is advantageous to friendly [Chinese] forces.”<sup>22</sup>

A subset of the stratagems is information warfare (IW). The purpose of IW is to attack the enemy's methods of arriving at decisions which will in turn cause the enemy to delay making decisions or cause incorrect decisions to be made. This results in the attacker gaining the initiative as the enemy is either making poor decisions or failing to make decisions due to confusion.<sup>23</sup> While both the United States and China agree on what IW should accomplish, China's method for employment of IW doctrine differs significantly. The U.S. focus is on Computer Network Attack (CNA) whereas Chinese emphasis is placed on psychological operations, denial and deception.<sup>24</sup>

Further examining the Chinese thought process, strategists from China are contemplating the use of IW to intimidate their adversary. Through information domination and psychological coercion, it is believed that the enemy can be defeated without the need for a physical engagement.<sup>25</sup> By first, linking

. . . the enemy's main vulnerabilities to its ability to process and make decisions, [it can then focus on] identifying, locating, and then attacking such centers of gravity (cognitive and information systems)."<sup>26</sup> Again, this idea is closely linked to that of Sun Tzu's concepts of "winning without fighting and attacking the enemy's strategy (command and control systems)."<sup>27</sup>

Surmising that China is audacious enough to employ an IW stratagem, it would also be necessary to assume that it would be used in a preemptive capacity.<sup>28</sup> A recent Congressional Research Service Report identified several potential preemptive areas where the U.S. Navy must be prepared in the event of a conflict with China over Taiwan. The report stated, "For the U.S. Navy, a crisis or conflict in the Taiwan Strait could place a premium on . . . forces with an ability to operate in an environment that could be characterized by IW/IO and possibly EMP or the use of nuclear weapons directly against Navy ships."<sup>29</sup>

James Mulvenon, a strategist for RAND, writes of the potential Chinese use of IW as a preemptive strike against the United States.

When one imagines scenarios in which the PLA would be concerned with preemptively striking U.S. forces during the deployment phase for early strategic victory, it is difficult to avoid the obvious conclusion that the author [Lu Linzhi, a Chinese strategist] is discussing a Taiwan conflict. For the PLA, using IW against U.S. information systems to degrade or even delay a deployment of forces to Taiwan offers an attractive asymmetric strategy. American forces *are* highly information-dependent, and rely heavily on precisely coordinated logistics networks. . . . If PLA information operators using PCs were able to hack or crash these systems, thereby delaying the arrival of a U.S. carrier battle group to the theater, while simultaneously carrying out a coordinated campaign of short-range ballistic missile attacks, “fifth column,”<sup>30</sup> and IW attacks against Taiwanese critical infrastructure, then Taipei might be quickly brought to its knees and forced to capitulate to Beijing.<sup>31</sup>

Given a delay caused by such an information attack, the PLA could potentially launch a full-scale amphibious operation vice the clandestine “fifth column” operation mentioned by Mulvenon above. This, coupled with EMP devices aimed at U.S. forces, would make a coordinated U.S. response to Chinese aggression against Taiwan extremely problematic. In fact, any response would almost certainly occur well beyond the capitulation of Taiwan.

To summarize, information warfare is a tool used to control the information which the enemy is processing in order to shape the opponent’s beliefs, values, and decisions. The Chinese are currently attempting to mold IW into a “higher level of military art.”<sup>32</sup>

[Chinese] strategists believe that by tapping into the enemy’s thought processes, values, and motives one can identify, manipulate, and reduce the adversary’s will to resist and hence achieve victory without actual combat. In concrete terms, IW attacks intended to inflict pain on the *adversary’s society* might be employed to impact public opinion and increase the political costs of fighting against China (much like the use of strategic airpower during World War II). The Chinese could *direct IW against America’s increasingly vulnerable and sprawling critical infrastructure in order to complicate Washington’s decisionmaking [sic] process.*<sup>33</sup> [emphasis added]

IW when developed under the strategic guidance of stratagems poses new challenges to the western methods of conducting warfare.

### **Economics – Who’s Buying the United States?**

China, with its unique economic ties to the United States, has the potential to create a tremendous disruption in the U.S. economy. When coupled with an informational assault, China’s employment of an economic stratagem at the strategic level of warfare could create a pre-invasion diversion capable of distracting U.S. attention from Taiwan. However, given all that China has to lose, it would be economic suicide if it acted with aggression without first taking the necessary steps to protect its monetary assets which are directly tied to the U.S. dollar. This point will be fully developed following a brief examination into how globalization has created a China which is dependant upon a strong U.S. economy.

In The Lexus and the Olive Tree, Thomas Friedman offers a unique perspective on how nations, through globalization, can become financially wealthy or bankrupt based upon the interdependence of trade and currency valuation. In 1997, the Thai baht (Thailand’s currency) fell roughly 30 percent overnight when the Thai government failed at an attempt to keep the baht tied to the U.S. dollar. This devaluation led to an economic collapse of Thailand’s financial market which sent ripples throughout Southeast Asia. As investors began to pull investment money out of the region, it triggered a slump in oil prices. Russia, which was heavily invested in the oil market, began to feel the effects of the Southeast Asian recession. At the time, Russia was fairly new on the capitalist scene and had acquired a significant debt. In order to finance this debt, Russia raise the interest rate on it treasury bills and ruble bonds from 20 to 70 percent to attract investors. To pay off these loans it was using the capital gained from its oil revenue to finance its debt. As these revenues began to dry up, Russia’s economy collapsed. This scenario repeated itself throughout the world,



directly impacting the economies of every industrial continent. Investors, individual and national alike, sought out locations which offered security for their financial assets. U.S. Treasuries which have historically offered great security, but smaller interest rates, were purchased in record numbers. This in turn allowed the U.S. government to lower the interest rate needed to attract investors, significantly drove up the U.S. debt, and assisted in funding the housing boom which has continued to present day.<sup>34</sup>

Using an October of 2005 U.S. Treasury Department estimate, Bloomberg reported that “investors abroad held \$2.1 trillion of the \$4.11 trillion marketable U.S. Treasury Securities.”<sup>35</sup> However, if other government securities such as Fannie Mae mortgages were lumped together with the Treasury Securities, the total figure for foreign investors actually climbs to approximately \$3 trillion. Two-thirds of this total debt is held by Japan, China, Taiwan, and South Korea.<sup>36</sup> In mid-2005, China and Japan held \$243 billion and \$680 billion in U.S. Treasuries respectively. For China, this was roughly an \$80 billion increase from the previous year.<sup>37</sup> While China holds an impressive number of U.S. Treasuries, it pales in comparison to the \$700 billion it holds in dollar reserves--a figure which is expected to grow to over \$1 trillion by June of 2006.<sup>38</sup> As will be discussed later in several scenarios, these large holdings of U.S. Treasuries and dollar reserves could become extremely important if China was to launch an attack on the U.S. economy.

Corresponding to the time of the recession in Southeast Asia, as referenced earlier in Friedman's book, China began its accumulation of U.S. Treasuries and dollar reserves. These large holdings pose a significant problem for China. While China has enjoyed great financial success by profiting from the trade imbalance which it has shared with United States, its future economic success is tied directly to the performance of the dollar. So, just what could China do to create a financial diversion which could send the United States

scrambling to recover its financial losses while the PLA attempted to reunify Taiwan by military means?

In creating a situation that places the United States in economic distress, the Chinese would be applying the principles of the second stratagem. By attacking what the United States “holds dear,” it would be attempting to produce an inward focus that would cause the American people to not have the stomach for a conflict with China over Taiwan. The following three scenarios provide potential methods which China could use to attack the U.S. economy and thereby produce just such a diversion.

### **Scenario #1: China Revalues the Yuan**

As previously mentioned in the section on diplomacy, the yuan is very closely linked to the dollar. Prior to June of 2005, the People’s Bank of China, China’s central bank, set the exchange rate at 8.28 yuan to the U.S. dollar. The Chinese currency, which was undervalued by as much as 40 percent at the time,<sup>39</sup> favored Chinese trade in that it allowed China to sell goods to the United States at reduced prices while U.S. imported goods were inflated in China.<sup>40</sup> While this appears to be less than favorable for the U.S. economy, as long as China willingly used its trade surplus to purchase U.S. Treasuries, the United States would continue to benefit from this relationship; albeit while increasing in debt. This is because China was subsidizing “a great deal of America’s profligate spending. In order to maintain the peg [of 8.28 yuan per dollar], China [was] forced to buy . . . dollars, which [were] then dumped into US Treasury bonds, financing America’s hefty deficits.”<sup>41</sup>

Under diplomatic pressure from the U.S. Treasury Department and initiated by the Bush Administration last summer, China did agree to adjust its currency slightly. The adjustment decreased the exchange rate from 8.28 to 8.11 (2.1 percent) and furthermore tied the yuan to a handful of other currencies.<sup>42</sup> While this move was very slight, if the PRC were to allow its

currency to fluctuate with changing market conditions by allowing the yuan to float, it would signal that China is truly ready to become a global economic leader. Its currency would instantly appreciate by as much as 40 percent and produce a similar affect on other Asian currencies. This would cause other Asian nations to stop purchasing U.S. Treasuries because, with stronger currencies, they would no longer need the stability which these treasuries offer. The effect would be that the United States would lose its primary debt financiers, whereby triggering a severe U.S. recession.<sup>43</sup>

While this scenario has the capacity to cause enough financial chaos within the United States to cause it to lose its external situational awareness, it is unlikely that China would attempt this option in conjunction with an invasion on Taiwan. If China were to float the yuan, it would result in enormous financial losses for the PRC as its \$1.25 trillion in dollar reserves and treasury holdings evaporated with the depreciation of the dollar. Furthermore, if the dollar's value fell, the American consumer would have less buying power for imported goods, leaving a large supply of Chinese goods without a demand for them. In doing so, China would crush its own economy while attempting to create a financial diversion within the U.S. economy.

### **Scenario #2: China Sells Large Volume of U.S. Treasury Securities**

In a second scenario, China sells a significant portion of its U.S. Treasuries. Worldwide financial panic would follow as confidence was lost in the dollar. Other nations would follow China's lead by attempting to sell their accumulated U.S. Treasuries. This selling would initiate a U.S. recession that could quickly become a global depression. As the value of the dollar, the world's financial stabilizing force, plummeted due to the U.S. government defaulting on its debt, other nations and individual investors alike would stop purchasing treasuries which would in turn cause both interest rates and inflation to rise beyond any

method of control. Again, such a situation would have a negative impact on China's economy and would therefore be unlikely.

### **Scenario #3: China Threatens to Sell U.S. Treasury Securities**

In this scenario, which the author considers to be the most plausible, China does not actually follow through with selling its holdings of U.S. Treasuries. Rather, without any forewarning, it simply makes a declaration that it is preparing to sell them. According to one economist, a feint by China to sell just \$100 billion of its U.S. Treasuries could result in a single day rise in long-term interest rates of 1 percent, a stock market fall of 10 percent, and an immediate weakening of the dollar.<sup>44</sup> Now multiply this by a factor of two and a half to account for all of the Chinese held U.S. Treasuries. Given this scenario, one can conclude that U.S. attention would be focused on trying to resolve internal issues caused by the chaos of a falling market and a nearly instantaneous spike in inflation, rather than on external issues such as a conflict with China over Taiwan. By creating an economic diversion, China would be applying its second stratagem as a step toward achieving its desired end state for Taiwan. The advantage of this scenario for China is that everything would eventually return to a status quo. Once it became clear that the China had no intention of selling, the U.S. market would rebound, the dollar will strengthen, and U.S.-China trade would, in time, return to normalcy as the two nations once again arrived at the realization that they are mutually dependant on one another for economic survival. Although it would be a bit naïve to believe that all would be forgiven, over a period of years the U.S.-China relationship would eventually warm because of the shared interests--a byproduct of globalization.

### **Scenario Indicators**

While the indicator of a potential Taiwan invasion for the last scenario would come as verbal threat to sell its holdings of U.S. Treasures, the previous two scenarios, though

unlikely, could also occur if China was to begin to exchange its large holdings of dollars and U.S. Treasuries for commodities. During 1971, former President Richard Nixon removed the United States from its tie to the gold standard where one ounce of gold was fixed to a price of \$35 dollars.<sup>45</sup> In doing so, the dollar was floated. Much like the stock market, it became influenced by public opinion and other market conditions. A bold move at the time, it has since freed the dollar to flood the markets of the world and become the standard by which all other currencies are judged.

If China decided that it was prepared to attempt to become the world's chief financial broker in conjunction with the takeover of Taiwan, it would begin to trade-in its large dollar reserves for commodities, such as gold. In doing so, the gold rate would probably increase at least ten fold, from its current trading price of around \$550 per ounce, and possibly more as the dollar weakened. Again, this would be an indicator of the possibility that China was preparing for action. The Chinese PLA mobilization day would probably occur in conjunction with the actual floating the yuan, the selling of U.S. Treasuries, or the feint to sell treasuries as per the three scenarios.

### **China: Rational or irrational actor?**

Thus far, this paper has addressed some possible methods by which China could distract the United States in order to achieve its strategic objective of invading Taiwan, but has not answered the question of whether or not an invasion is likely to occur. Such an invasion would be improbable, from a rational perspective, on two grounds. First, China would risk the loss of many key Asian diplomatic relationships which it has put much effort into building. Secondly, China would likely suffer a significant economic setback as the Taiwanese economy recovered from the invasion. These barriers shall first be expanded upon so as to prove that it would be illogical for China to attempt an invasion. Next, a

method of circumventing these rational barriers will be presented, offering a historical example which mirrors the China-Taiwan scenario and demonstrates how rational behavior has been ignored in the past.

China recently released a diplomatic white paper entitled “China’s Peaceful Development Road”<sup>46</sup> as an information piece to dispel fears over its growing appetite for regional and world influence. In this white paper, China reviews some of its recent diplomatic activities and touts that its intentions are peaceful and that its pursuits are in support of stability for both Asia and the world as a whole. The paper states,

China has signed boundary treaties with 12 continental neighbors, settling boundary issues left over from history. The boundary issues with India and Bhutan are in the process of being settled. China actively promotes dialogue and cooperation on regional security, and plays a positive and constructive role in such regional mechanisms as [3 ASEAN Dialog Partners or ASEAN+3], Shanghai Cooperation Organization, Asia Pacific Economic Cooperation, ASEAN Regional Forum, and Asian Cooperation Dialog.<sup>47</sup>

Furthermore, the white paper discusses that

China has joined more than 130 inter-governmental international organizations, including the international Atomic Energy Agency (IAEA), is committed to 267 international multilateral treaties such as the Treaty on the Non-Proliferation of Nuclear Weapons, and actively participates in international cooperation in such fields as anti-terrorism, arms control, non-proliferation, peacekeeping, economy and trade, development, human rights, law-enforcement, and the environment.<sup>48</sup>

Through the diplomatic engagements outlined in the white paper, China is attempting to win over the hearts and mind of its Asian neighbors. As it builds these relationships, economic partnerships will form that share the common agenda of profitability. China, in essence, is developing allies that will support its actions, whether such actions are diplomatic, military, or economic. Fear of losing China’s support could cause its Asian neighbors to simply *look the other way* if China was to invade Taiwan. This is a possible solution to the

diplomatic problem which China would face if it invaded Taiwan. However, the economic issue still remains.

In 1999, President Lee Teng-hui of Taiwan made a statement that Taiwan should enjoy “a special state-to-state relationship with the PRC.”<sup>49</sup> China responded with numerous threats stating that Taiwan was attempting to step away from the “One-China” policy. This move by China “knocked down Taiwan’s stock market, the TAIEX, by 20 percent. . . . [while China’s] Shanghai Stock Exchange B-share index plunged 40 percent!”<sup>50</sup> Any attempt by China to invade would certainly impact the economies of both China and Taiwan.

To address this economic hurdle standing in the way of a Chinese invasion one must look inside China to the internal challenges that it is facing at home and pose the idea of irrational behavior on the part of the government. There is no denying that China is an industrial giant --experiencing an annual double digit economic growth rate for the last fifteen years. This growth rate, however, is not a true representation of the financial wellbeing of the average Chinese citizen. “Income inequality, corruption and abuses of power are flourishing along with China’s burgeoning economy.”<sup>51</sup> China’s government-run central bank, the Peoples Bank of China, has placed a great strain on the banking system which, similar to the any large-bureaucratic organization, is subject to over management, fraud, and other inefficiencies. “The World Bank ranks China in the 40<sup>th</sup> percentile for its application of the rule of law. . . .[as well as for its] control of corruption.”<sup>52</sup> This statistic marks an unfavorable 20 percentage point drop on the corruption scale (equating to a 20 percent increase in corruption) since 1998. When ranked for its citizens’ “voice and accountability,” China drops all the way to the 7<sup>th</sup> percentile.<sup>53</sup> These factors led Albert Keidel of the Carnegie Endowment to write a paper entitled, “The Economic Basis for Social Unrest in China.”<sup>54</sup> In his paper, Keidel notes that the number of incidents of social unrest between 1993 and 2003

has grown by a factor of seven. While this statistic would be little more than a footnote if it were describing the free societies of the West, under a communist-led government where protesters are punished with lengthy prison sentences or even death, this marks a dramatic increase in occurrences.

Until now it has been argued that China would act rationally, which would prevent it for economic reasons from entering into a military entanglement with Taiwan. But what if China was to act irrationally, in order to divert attention from the social unrest which the PRC government has recently had to quell with increased regularity? A brief look back in history to the conflict between Great Britain and Argentina over the Falkland Islands will reveal an eerie parallel between China and Argentina--a situation in which Argentina acted irrationally but for nearly identical reasons as those facing China.

In 1982, the military lead government of Argentina invaded the Falkland Islands (known in Argentina as the Malvinas). This invasion was a result of years of propaganda which claimed that Great Britain illegally possessed the islands which rightfully belonged to Argentina. This propaganda campaign went so far as to even indoctrinate school children into the ideal that it was their duty to ensure that the Malvinas returned to Argentina.<sup>55</sup> In 1982, the Argentine government was faced with numerous economic problems leading to a great deal of internal social unrest. A failed attempt to transition to an export based economy lead to factory closings and a large growth of external debt. Further setbacks occurred when Mexico, Argentina's primary financial lender, experienced its own debt crisis which forced it suspend its purchase of Argentinean treasuries. This situation led to Argentina's inflation rate spiraling upwards.<sup>56</sup> The invasion by Argentina offered the government a method of distracting its people from the internal problems that the country was facing as they united around the accomplishment of the long held goal of retaking the Malvinas which *rightfully*



*belonged to them.* What the Argentine government failed to consider is that Great Britain, with the 3<sup>rd</sup> largest navy in the world, may actually respond with force, as they did.<sup>57</sup>

China may very well act irrationally given a comparable set of circumstances. China is experiencing internal social unrest, believes that Taiwan is a Chinese renegade province that has an illegitimate government, and is exploring methods of preventing U.S. involvement in what it believes to be an internal civil issue. These factors combine to create a situation where China may take military action despite the economic setback that such action would produce. As Thomas Friedman writes, “When 1.2 billion people going eight miles an hour hit a speed bump the whole world will bounce. It’s when China hits this speed bump that it will pose its most serious threat to world stability . . . not out of strength but out of weakness.”<sup>58</sup> It is in this very “weakness” that China could be compelled to take military action against Taiwan. This irrationality poses a direct threat not only the United States, but also has implications for China and every other nation with ties to the U.S. economy.

### **Recommendations for U.S. PACIFIC COMMAND**

Despite possible attempts at informational deception and economic diversions, prudent awareness, foresight, interagency coordination and training to these issues--lead by PACOM --would overt such actions by bringing the deception to light and by bringing to bear a proportional force prepared to respond to such a threat. Awareness is the key to success on any battlefield. Whether the engagement be Beijing vs. Washington, the PLAN vs. the U.S. Navy, or Beijing Financial Street vs. Wall Street, knowledge of one’s surroundings is key to understanding how a strain in one or more of the elements of national power may be a “tipper” to future action in another element of power, given the globalized society in which we live. By presenting the potential interplay between the elements of power, this paper has discussed how China’s usage of these elements may be directly linked to a Chinese invasion

on Taiwan. During an economic or informational crisis, the Combatant Commander will potentially be the sole individual at the theater-strategic level and above to correctly identify China's desired end state out of the chaos resulting from a major economic attack. If not prepared with several courses of action (COA) for such an event, China could use these effects to produce a situation that could catch the United States off-guard.

Preceding an attack on Taiwan, China would most likely employ elements of its first two stratagems. First, China would indirectly attack Taiwan's center of gravity--U.S. diplomatic and military support. In creating a coupled economic and information attack, China would be applying Stratagem Two, ". . . when the enemy is too strong to attack directly, then attack something he holds dear."<sup>59</sup> An information attack on the U.S. economy, by threatening to sell its U.S. Treasuries, could create a diversion that would in turn offer a window of opportunity for an attack on Taiwan, ergo Stratagem One, ". . . in order to lower an enemy's guard you must act in the open while hiding your true intentions under the guise of common daily activities."<sup>60</sup> Having financially "acted in the open," China would now be free from a U.S. response to an invasion on Taiwan and capable of fulfilling its "true intentions"--the desired end state of Taiwan's complete to total submission to the PRC.

To counter an economic attack, namely a feint in which China threatens to sell its holdings of U.S. Treasuries, the U.S. response must be prompt and preplanned. PACOM will need to establish a working relationship with departments of the U.S. Government with which it is not accustomed to interacting--namely the Department of the Treasury and the Federal Reserve Board. Both the Treasury and the Federal Reserve could then have preplanned COAs ready in the event of such an incident. A political-military (POL-MIL) plan that includes the Treasury and Federal Reserve should be drafted to include both economic agencies speaking out in unison to warn the American people and investors in the

American economy that this is not a credible financial threat by China. The Federal Reserve may also respond with a statement that it is prepared to buy any U.S. Treasuries that China is prepared to sell. Additionally, the Department of the Treasury would petition Japan and South Korea prior to such a scenario unfolding to determine the willingness of these two countries to assist in buying any treasuries they are capable of procuring.<sup>61</sup> In doing so, it would keep the dollar stronger which in turn favors both nations--already in possession of large holdings of U.S. Treasuries and dollar reserves.

Training is the key to preparing for an information-based economic attack. As such, training is necessary for PACOM to actively include all elements of national power. Interagency planning and exercises are necessary to ensure that a single message “to not panic” is publicly released while pre-staged international economic support is created through U.S. friends and allies in Asia. At the theater level, exercises must be performed to produce lessons learned which can then be filtered into the training and readiness cycles of U.S. Forces.

Lastly, continual presence is needed through an analytically designed Theater Security Cooperation Plan (TSCP) to discourage Chinese military action. Careful planning for force structure is necessary. It must be large enough to deter China from action against Taiwan, yet small enough so as to not embolden Taiwan to declare independence from mainland China and thereby invite an attack. A show of force is critical for dissuading China and allowing the United States to maintain the initiative in the region should military force become necessary.

## **Conclusion**

In this era of globalization, the elements of national power are used to by governments to create politically driven opportunities. This paper has presented a method in which China

may use the elements of information and economics under the overarching umbrella of stratagems. In developing this method and recognizing China's desire for a reunification with Taiwan that it views can only be accomplished by military means, it has been argued that China may use the concepts held in the first two stratagems to create an economic diversion within the United States in an attempt to prevent or delay a U.S. military response. In essence, this diversion would be an attempt to remove Taiwan's strategic center of gravity--U.S. diplomatic and military support. If successful, China's only military opposition would be the relatively weaker forces of Taiwan.

Awareness is the key to defeating the Chinese strategy. The Department of Defense, through the U.S. PACIFIC COMMAND, may be the sole agency to recognize an economic attack led by China as a feint with the true purpose of a military takeover of Taiwan. As such, much of the interagency coordination and training for the overall TSCP will fall on the shoulders of PACOM. To defeat this attack, economic responses must be planned in advance and a military presence must be in place to deter aggression. Only through careful planning and execution can a ruse such as this be exposed.

## NOTES

<sup>1</sup> In this paper, the operational culmination point for U.S. forces occurs after Chinese ground forces, sufficient in strength to invade and occupy Taiwan, have landed.  
“Culmination point – a “point” in terms of time and space reached by the attacker or the defender, after which their stated objectives cannot be accomplished and continued effort to reach them would significantly heighten the chances of failure or even defeat; it is reached when the relative combat power begins to decrease rapidly for one side in combat; tactical, operational, and strategic culmination points are differentiated.” Milan N. Vego, Operational Warfare, (Newport, R.I.: Naval War College, 2000), 636.

<sup>2</sup> “Desired end state – broadly expressed political, diplomatic, military, economic, social ethnic, humanitarian, and other conditions that the highest political leadership of national or alliance/coalition forces wants in a given theater after the end of hostilities.” Milan N. Vego, Operational Warfare, (Newport, R.I.: Naval War College, 2000), 637.

<sup>3</sup> Parris H. Chang and Martin L. Lasater, If China Crosses the Taiwan Strait: The International Response (Lanham, Md.: University Press of America, 1993), 16.

<sup>4</sup> W. G. Goddard, Formosa: A Study in Chinese History (East Lansing, Mich.: Michigan State University Press, 1966) Chapters 3 and 4; quoted in John F. Copper, Taiwan: Nation –State or Province? (Boulder, Colo.: Westview, 2003), 33.

<sup>5</sup> Taiwan Relations Act, U.S. Code, Title 22, sec. 3302 (1979).

<sup>6</sup> John F. Copper, Taiwan: Nation-State or Province? (Boulder, Colo.: Westview, 2003), 29-62.

<sup>7</sup> The “six-party talks” is a U.S. led diplomatic attempt to persuade North Korea to end its entire nuclear program (both in terms of energy and weapons production). The talks include: Russia, South Korea, North Korea, Japan, China and the United States.

<sup>8</sup> Liu Jianchao, quoted in Austin Bay, “The DIME Ballet,” Strategy Page, 24 May 2005, <<http://www.strategypage.com/onpoint/articles/2005524.asp>> [Viewed: 09 February 2006].

<sup>9</sup> Austin Bay, “The DIME Ballet,” Strategy Page, 24 May 2005, <<http://www.strategypage.com/onpoint/articles/2005524.asp>> [Viewed: 09 February 2006].

<sup>10</sup> The Chinese currency, the yuan, is also commonly referred to as the renminbi.

<sup>11</sup> Ester Pan, “The U.S.-China Relationship: Policy Goals,” Council on Foreign Relations, 11 November 2005, <[http://www.cfr.org/publication/9205/uschina\\_relationship.html](http://www.cfr.org/publication/9205/uschina_relationship.html)> [Viewed: 24 December 2005].

<sup>12</sup> Department of Defense, Annual Report to Congress: The Military Power of the People’s Republic of China (Washington, DC: 2005), <<http://www.defenselink.mil/news/Jul2005/d20050719china.pdf>> [Viewed: 14 January 2006], 21-22.

<sup>13</sup> Ibid., According to some estimates, the official budget does not include foreign weapons procurement (up to \$3.0 billion annually from Russia alone), expenses for the paramilitary People’s Armed Police, funding to support nuclear weapon stockpiles and the Second Artillery, subsidies to defense industries, some defense-related research and development, and local, provincial, or regional contributions to the armed forces.

<sup>14</sup> “Rand Study Predicts China's Defense Spending Is Lower Than Previous Outside Estimates,” RAND Corporation Newsroom, 19 May 2005, <<http://www.rand.org/news/press.05/05.19.html>> [Viewed: 04 February 2006].

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<sup>15</sup> Keith Crane, Roger Cliff, Evan Medeiros, James Mulvenon, and William Overholt, Modernizing China's Military: Opportunities and Constraints (Santa Monica, Calif.: RAND Cooperation, 2005), 202.

<sup>16</sup> Ibid., xxii.

<sup>17</sup> Timothy L. Thomas, Dragon Bytes: Chinese Information-War Theory and Practice (Fort Leavenworth, KS: Foreign Military Studies Office, 2004), 79.

<sup>18</sup> Merriam-Webster's Collegiate Dictionary, 11<sup>th</sup> ed. s.v. "stratagem."

<sup>19</sup> Thomas, 97.

<sup>20</sup> Ibid., 80,93.

<sup>21</sup> Ibid., 93.

<sup>22</sup> Ibid., 94.

<sup>23</sup> Toshi Yoshihara, Chinese Information Warfare: A Phantom Menace Or Emerging Threat? (Carlisle, Pa.: Strategic Studies Institute, 2001), 4.

<sup>24</sup> Kate Farris, "Chinese Views of Information Warfare," Defense Intelligence Journal 10, no. 1 (2001): 38.

<sup>25</sup> Yoshihara, 13.

<sup>26</sup> Ibid., 14.

<sup>27</sup> Ibid., 26.

<sup>28</sup> Ibid., 30.

<sup>29</sup> Ronald O'Rourke, "China Naval Modernization: Implications for U.S. Navy Capabilities—Background and Issues for Congress," Foreign Affairs, Defense, and Trade Division of Congressional Research Service, 18 November 2005, <<http://fpc.state.gov/fpc/c16228.htm>> [Viewed: 31 December 2005], 28.

<sup>30</sup> "Fifth column - a group of secret sympathizers or supporters of an enemy that engage in espionage or sabotage within defense lines or national borders." Merriam-Webster's Collegiate Dictionary, 11<sup>th</sup> ed. s.v.

<sup>31</sup> James Mulvenon, "The PLA and Information Warfare," The People's Liberation Army in the Information Age, (Washington, DC: RAND Cooperation, 1999), <[www.rand.org/pubs/conf\\_proceedings/CF145/CF145.chap9.pdf](http://www.rand.org/pubs/conf_proceedings/CF145/CF145.chap9.pdf)> [Viewed 31 December 2005], 185.

<sup>32</sup> Yoshihara, 28.

<sup>33</sup> Ibid., 28-29.

<sup>34</sup> Thomas L. Friedman, The Lexus and the Olive Tree, Revised ed. (New York: Farrar, Straus and Giroux, 2000), xi-xiv.

<sup>35</sup> Kevin Carmichael, "Oct. Foreign Holdings of U.S. Assets Rise a record of \$106.8 Bln," Bloomberg.com, 15 December 2005, <<http://www.bloomberg.com/apps/news?pid=10000103&sid=aJPORsvViefg&refer=us>> [Viewed: 01 January 2006].

<sup>36</sup> Pat M. Holt, "The US Needs More Debate About Reducing Its Deficit," Christian Science Monitor, 1 December 2005, News/U.S. News, Lexis-Nexis, (Dayton, OH: Lexis-Nexis), (12 December 2005).

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<sup>37</sup> William Pesek, "How China Delays a Plunge in U.S. Treasuries," Bloomberg.com, 22 August 2005, <[http://www.bloomberg.com/apps/news?pid=10000039&sid=a5EnMJpq7xYQ&refer=columnist\\_pesek](http://www.bloomberg.com/apps/news?pid=10000039&sid=a5EnMJpq7xYQ&refer=columnist_pesek)> [Viewed: 01 January 2006].

<sup>38</sup> Richard Lehmann, "A Golden Solution to the China Syndrome?" Forbes.com, 27 July 2005, <[http://www.forbes.com/columnists/investmentnewsletters/2005/07/27/china-gold-lehmann-cz\\_rl\\_0727soapbox\\_inl.html](http://www.forbes.com/columnists/investmentnewsletters/2005/07/27/china-gold-lehmann-cz_rl_0727soapbox_inl.html)> [Viewed: 01 January 2006].

<sup>39</sup> Pan.

<sup>40</sup> Crane et al., 11.

<sup>41</sup> "China Economy: China's Currency Conundrum," The Economist Intelligence Unit, 18 May 2005, <[http://www.viewswire.com/index.asp?layout=vwArticleListVw3&channel\\_id=190004019&category\\_id=&country\\_id=1800000180&region\\_id=&refm=vwCh&page\\_title=Channel+Latest&starting=161](http://www.viewswire.com/index.asp?layout=vwArticleListVw3&channel_id=190004019&category_id=&country_id=1800000180&region_id=&refm=vwCh&page_title=Channel+Latest&starting=161)> [Viewed: 12 December 2005].

<sup>42</sup> Wayne M. Morrison, "China-U.S. Trade Issues," Foreign Affairs, Defense, and Trade Division of Congressional Research Service, 4 August 2005, <[www.usembassy.at/en/download/pdf/china\\_trade.pdf](http://www.usembassy.at/en/download/pdf/china_trade.pdf)> [Viewed: 31 December 2005], 7.

<sup>43</sup> "China Risk: Alert – Politics, Deficits, and the Currency Debate," The Economist Intelligence Unit, 12 September 2003, <[http://www.viewswire.com/index.asp?layout=rkArticleListVw3&country\\_id=1800000180&channel\\_id=&category\\_id=&refm=&page\\_title=Latest+alerts&starting=701](http://www.viewswire.com/index.asp?layout=rkArticleListVw3&country_id=1800000180&channel_id=&category_id=&refm=&page_title=Latest+alerts&starting=701)> [Viewed: 12 December 2005].

<sup>44</sup> Kash Mansori, "China's Real Weapon?" Angry Bear, 9 April 2005, <<http://angrybear.blogspot.com/2005/04/chinas-real-weapon.html>> [Viewed: 2 January 2006].

<sup>45</sup> Lehmann.

<sup>46</sup> "White Paper on Peaceful Development Road Published," China Internet Information Center, 22 December 2005, <<http://www.china.org/2005/Dec/152669.htm>> [Viewed: 3 January 2006].

<sup>47</sup> Ibid.

<sup>48</sup> Ibid.

<sup>49</sup> Alexander K. Young, "Taiwan is Worthy of a Place in the U.N.," The Japan Times Online, 20 September 2000, <<http://www.japantimes.co.jp/cgi-bin/getarticle.pl5?eo20000920a1.htm>> [Viewed: 2 January 2006].

<sup>50</sup> Freidman, 249.

<sup>51</sup> Pan.

<sup>52</sup> Ibid.

<sup>53</sup> "Governance Research Indicator Snapshot: China," The World Bank, 03 January 2006, <[http://info.worldbank.org/governance/kkz2004/country\\_report.asp?countryid=42](http://info.worldbank.org/governance/kkz2004/country_report.asp?countryid=42)> [Viewed: 03 January 2006].

<sup>54</sup> Albert Keidel, "The Economic Basis for Social Unrest in China," Carnegie Endowment for International Peace, 26 May 2005,

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<sup>55</sup> Peter Kosminski, "The Falklands War: The Untold Story," (London: Yorkshire TV, 1987).

<sup>56</sup> "Argentina: Economic," [PBS.org](http://www.pbs.org/wgbh/commandingheights/lo/countries/ar/ar_economic.html), 4 January 2006, <[http://www.pbs.org/wgbh/commandingheights/lo/countries/ar/ar\\_economic.html](http://www.pbs.org/wgbh/commandingheights/lo/countries/ar/ar_economic.html)> [Viewed: 4 January 2006].

<sup>57</sup> Robert L. Scheina, Latin America: A Naval History 1810-1987, (Annapolis, Md.: Naval Institute Press, 1987), 234.

<sup>58</sup> Friedman, 374.

<sup>59</sup> Thomas, 93.

<sup>60</sup> Ibid.

<sup>61</sup> Mansori.



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